

BLIMPIE OF CALIFORNIA, INC
Financial Statements
December 31, 2006 and 2005

EZKR Certified Public Accountants
& Consultants
Eisman, Zucker, Klein & Ruttenberg, LLP

BLIMPIE OF CALIFORNIA, INC.
Financial Statements
December 31, 2006 and 2005

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Eisman, Zucker, Klein & Ruttenberg, LLP

Independent Auditors' Report

To the Board of Directors of
Blimpie of California, Inc.

We have audited the accompanying balance sheets of Blimpie of California, Inc. as of December 2006 and 2005 and the related statements of income and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Blimpie of California, Inc. as of December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Eisman, Zucker, Klein & Ruttenberg LLP

March 17, 2007

BLIMPIE OF CALIFORNIA, INC.
Balance Sheets
December 31,

ASSETS

	<u>2006</u>	<u>2005</u>
Current Assets		
Cash	\$ 102,265	\$ 15,927
Accounts receivable, net of allowance for doubtful accounts of \$20,000 for 2005	9,902	121,482
Advances to affiliates-short term	60,000	-
Advance to officers-short term	50,000	-
Prepaid expenses	-	376
Total Current Assets	<u>222,167</u>	<u>137,785</u>
Equipment		
at cost, net of accumulated depreciation of \$15,314	<u>-</u>	<u>-</u>
Other Assets		
Advance to affiliates, net of allowance of \$125,000 and \$100,000	33,489	110,798
Advance to officers	310,295	382,794
Due from BIXY, Inc.	-	45,773
Total Other Assets	<u>343,784</u>	<u>539,365</u>
TOTAL ASSETS	<u><u>\$ 565,951</u></u>	<u><u>\$ 677,150</u></u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Lines of credit	\$ 44,665	\$ 53,686
Accounts payable and accrued expenses	82,035	28,085
Due to advertising fund	21,170	187,473
Total Current Liabilities	<u>147,870</u>	<u>269,244</u>
Long-term debt	170,000	-
Deferred income, net of deferred expense	107,867	130,000
Stockholders' Equity		
Common stock, no par value: 10,000 shares authorized, 640 shares issued and outstanding	640	640
Paid-in capital	83,627	83,627
Retained earnings	55,947	193,639
Total Stockholders' Equity	<u>140,214</u>	<u>277,906</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>\$ 565,951</u></u>	<u><u>\$ 677,150</u></u>

See accompanying notes

BLIMPIE OF CALIFORNIA, INC.
Statements of Income and Retained Earnings
For the Years Ended December 31,

	2006	2005
Revenue		
Continuing franchise fees	\$ 386,592	\$ 365,693
Initial franchise fees	33,000	47,345
Other	38,000	67,888
Total Revenue	<u>457,592</u>	<u>480,926</u>
Expenses		
Continuing licensing fees	151,012	152,372
Initial franchise fees to licensor	10,260	21,500
General and administrative expense	409,012	340,961
Total Expenses	<u>570,284</u>	<u>514,833</u>
Net operating loss	(112,692)	(33,907)
Other Expenses	<u>(25,000)</u>	<u>(113,953)</u>
Net Loss	(137,692)	(147,860)
Retained earning, beginning	<u>193,639</u>	<u>341,499</u>
Retained earnings, ending	<u><u>\$ 55,947</u></u>	<u><u>\$ 193,639</u></u>

See accompanying notes

BLIMPIE OF CALIFORNIA, INC.
Statements of Cash Flows
For the Years Ended December 31,

	2006	2005
Cash Flows from Operating Activities		
Net Loss	\$ (137,692)	\$ (147,860)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Provision for bad debts	25,000	90,000
Depreciation and amortization	-	3,589
Deferred income	(22,133)	104,155
(Increase) decrease in:		
Accounts receivable	131,580	85,583
Prepaid expenses	376	(376)
Advances to affiliates	17,309	-
Due from BIXY, Inc.	45,773	(45,773)
Increase (decrease) in:		
Accounts payable and accrued expenses	53,949	(91,351)
Due to advertising fund	(166,303)	12,255
	<u>(52,141)</u>	<u>10,222</u>
Net cash provided (used) by operating activities		
Cash Flows from Investing Activities		
Advances to officers	(22,500)	(3,999)
Net cash used by investing activities	<u>(22,500)</u>	<u>(3,999)</u>
Cash Flows from Financing Activities		
Short-term borrowings	(9,021)	(9,319)
Long-term borrowings	170,000	-
Net cash provided (used) by financing activities	<u>160,979</u>	<u>(9,319)</u>
Net Increase (Decrease) in Cash	\$ 86,338	\$ (3,096)
Cash, beginning	<u>\$ 15,927</u>	<u>19,023</u>
CASH, ENDING	<u>\$ 102,265</u>	<u>\$ 15,927</u>
Supplemental Information		
Cash paid during the years for interest	\$ 3,880	\$ 5,791
Cash paid during the years for taxes	\$ 4,020	\$ 3,451

See accompanying notes

BLIMPIE OF CALIFORNIA, INC.
Notes to Financial Statements
For the Years Ended December 31, 2006 and 2005

Organization

Blimpie of California, Inc., a California Corporation, (the Company), markets Blimpie restaurant franchises in California, as an area franchisor. All of the Company's business is dependent upon the economic conditions within the state of California.

Cash and Cash Equivalents

For purposes of the statement of cash flows, all unrestricted investment instruments with original maturities of three months or less are deemed cash equivalents. The Company had no cash equivalents at December 31, 2006 and 2005.

Revenue Recognition

The Company reports franchise fees as income when all material services or conditions relating to the sale of franchise have been substantially performed or satisfied in accordance with the terms of the franchise agreement. The Company reports direct cost related to franchise fees when the income is recognized.

Continuing franchise fee income and license expense are based on a percentage of the gross revenues earned by operating restaurant units as defined in the franchise agreements.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles required management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Depreciation

Depreciation of equipment is computed principally on an accelerated method over five years based on the estimated useful lives of the assets.

BLIMPIE OF CALIFORNIA, INC.
Notes to Financial Statements
For the Years Ended December 31, 2006 and 2005

Franchising Operations

License Agreement

In 1984 the Company entered into a license agreement with Blimpie International, Inc. (BII), for the exclusive right to use the "Blimpie" trademark and technical information (recipes, methods, process, etc.) in California. Terms of the license agreement provide that the Company is charged an initial franchise fee for each California location licensed and a continuing license fee of 2.5% of the gross revenues of the restaurants in operation. The term of the license agreement is for 99 years beginning July 1984 with renewal options as defined in the license agreement. In January 2005 the agreement was assigned to KBI Holdings, LLC.

The license agreement, originally signed in 1984, was amended on April 30, 1992. The amended license agreement requires the Company to license not less than three Blimpie locations annually for the next 15 years. The obligation is cumulative and the Company will be credited in succeeding years for the number of Blimpie locations licenses in excess of three in any given year. Should the Company not comply with this requirement, the license agreement shall be deemed automatically terminated and cancelled. However, the agreement shall remain as to those Blimpie Restaurants developed or in the process of development with respect to any franchise or subfranchise executed between the Company and any third party as of the date default.

Significant Commitments and Obligations:

In accordance with the terms of each franchisee's agreement, the Company is obligated to provide the following supervision assistance and services: layout, training and pre-opening assistance, operations manual, continuing assistance, as specified in the Uniform Franchise Offering Circular, advertising and promotion, supplies and pricing.

Franchise ownership changes:

For the year ended December 31, 2006 and 2005, franchise ownership changes are summarized as follows:

	<u>2006</u>	<u>2005</u>
Number of franchise in operation – beginning of year	26	29
Number of franchise opened during the year	5	4
Number of franchise closing during the year	<u>(3)</u>	<u>(7)</u>
Number of franchise in operation – end of year	<u>28</u>	<u>26</u>